MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2019/2020 SESSION

BAC2664 – AUDITING

(All Section / Groups)

4th MARCH 2020
9:00 a.m. – 12:00 p.m
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 7 pages with 5 Questions only.
2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please print all your answers in the Answer Booklet provided.

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QUESTION 1

i- Management assertions are implied or expressed representations by management about classes of transaction and the related accounts in the financial statements. These assertions are directly related to approved accounting standards. They are part of the criteria that management uses to record and disclose accounting information in financial statements.

Required:

Distinguish among the seven categories of management assertions about financial information as specified in the ISA 500: *Audit Evidence.*

(3.5 marks)

ii- The following are independent situations:

1. Mimi & Associates is the company's auditor of Langsat Sdn Bhd. During the current year audit of Langsat Sdn Bhd, the auditors were not allowed to confirm the total receivables from its major customer. The audit team of Mimi discovered that the amount of receivables is material in Langsat's financial statements. The auditors were unable to satisfy themselves as to the valuation of the receivables by alternative procedures. The management of Langsat was also unable to furnish them with the documents and records that are needed to determine the value of receivables at the end of the year.

2. During the audit of Bachang Sdn Bhd, its company's auditor, Baba & Associates, revealed that Bachang Sdn Bhd has prepared its financial statements for the year without the statement of cash flows. Baba & Associates disagreed with this practice.

3. Nadira is the Senior Auditor at Papa & Associates who is responsible to audit the fixed assets of its' client, Cempedak Sdn Bhd. Nadira was of the opinion that a material amount of RM200,000 for depreciation was to be provided for freehold buildings for the year ended 30 June 2019. The directors of Cempedak Sdn Bhd were of the view that the market value of the buildings far exceeded its carrying value, and as such have refused to provide for depreciation.

4. You are auditing Syarikat Manggis Sdn Bhd, a manufacturer of cooking gas for the year ended 30 September 2019. Syarikat Manggis has spent RM400,000 on a new equipment that will be ready for use in the following year. This amount has been debited in the current year's profit and loss statement. The useful life of the equipment has been estimated to be 15 years. The equipment is considered material in the financial statements.

Continued...

Required:

With reference to ISA 700: *Auditor's Report on Financial Statements*:

a. Describe any four types of opinions that may be expressed in an auditors' report and, under what circumstances are they appropriate.

(8.5 marks)

b. Explain the type of audit opinion that should be issued for each of the above situations (1- 4) and explain your reasoning.

(8 marks)

(Total: 20 marks)

QUESTION 2

ABC Sdn Bhd involves in textiles business for the past twelve years. It operates a factory producing men and women garments in Senawang Industrial Park, Negeri Sembilan. As a manufacturing company, an effective management of raw materials is very important to the company to ensure no interruption in the production process. Your firm is appointed by ABC Sdn Bhd to evaluate the internal control system of its purchasing system. The company's system in purchasing the raw materials is as follows:

There are various types of raw materials used in ABC's production. Whenever the factory runs out of raw materials, the factory manager would verbally instruct the factory clerk to prepare a copy of material requisition form and submits it by hand to the Purchasing Department.

The purchasing officer would then select the approved supplier, indicate it in writing on the material requisition form and gives it to the purchasing clerk. The purchasing clerk is responsible to prepare a purchase order in three copies. After signing the purchase order, the purchasing clerk would send the original copy to the supplier and the second copy to the Accounts Department. The third copy is filed by the purchasing clerk.

Materials purchased are sent directly to the factory. The factory supervisor would count the quantity of materials received and compare them with the supplier's delivery notes. Particulars of the materials received would then be recorded in an inventory movement register. When the materials are used in production, the inventory register would be updated by the factory clerk. On a monthly basis, the balance as per the inventory movement register would be compared against the physical quantity of the remaining materials that has been counted by the factory supervisor, with the assistance of the factory clerk. Adjustments in the inventory movement register would be made by the factory clerk should any imbalances be discovered during the inventory count.

Continued...

Supplier's invoices are processed by the accounts clerk who records the purchase transactions using SAP accounting software. In line with the company's policy, a cheque is processed three (3) days before the invoice due date. The accounts clerk is in-charge to write all cheques for payment. Each cheque is signed by the accountant, after verifying that the cheque amount tallies with the full amount stated in the supplier's invoice. The invoice is then filed and the cheque sent via mail to the supplier.

The cheque butts are used by accounts clerk to update the company's Cash Payment Journal.

Required:

a. Identify any four major weaknesses in ABC Sdn Bhd's internal control of its purchasing system.

(8 marks)

b. Briefly explain the possible effect of each of the weaknesses identified.

(8 marks)

c. Suggest one recommendation to overcome each of the weaknesses.

(4 marks)

Present your answer in the following format:

Weaknesses	Possible effects	Recommendation

(Total: 20 marks)

QUESTION 3

i- Aini Salim is doing her Bachelor of Accounting program at one of the universities in Malaysia. She is now attached to RST & Associate, a chartered accountant firm, for her 6 months internship program. She is reviewing the internal control questionnaire for sales and collection cycle. This questionnaire is used by the external auditors to obtain an understanding of internal control in the sales and collection cycle. Selected questions from the questionnaire are as follows:

1. Are customer orders evaluated for credit approval by someone independent of sales?

2. Is the numerical sequence of bills of ladings accounted for to identify duplicates or missing documents?

3. Are sales invoice amounts independently verified for correctness?

Continued...

4. Are individuals responsible for handling cash collections independent of accounting and shipping functions?

5. Are entries in the sales journal timely recorded in the accounts receivable master file?

Required:

You are Aini's supervisor at RST & Associate. Aini is confused about the above questions. Please explain to her based on the following items:

a. For each of the preceding questions, state the transaction-related audit objectives being fulfilled if the control is in effect.

(2.5 marks)

b. For each control, list a test of control to test its effectiveness.

(2.5 marks)

c. For each of the preceding questions, identify the nature of the potential financial misstatements.

(2.5 marks)

d. For each of the potential misstatements in part c, list a substantive audit procedure to determine whether a material misstatement exists.

(2.5 marks)

ii- Analytical procedures consist of evaluations of financial information made by a study of plausible relationships among both financial and non-financial data. They range from simple comparisons to the use of complex models involving many relationships and elements of data. They compare recorded amounts, or ratios developed from recorded amounts, to expectations developed by the auditor.

Required:

a. Describe the purposes of analytical procedures as stated in the ISA 520: *Analytical Procedures*.

(4 marks)

b. Identify the source of information from which an auditor develops expectations.

(2 marks)

c. Describe the factors that influence an auditor's consideration of the reliability of data for the purpose of testing assertions.

(4 marks)

(Total: 20 marks)

Continued...

QUESTION 4

i- XYZ Berhad is a manufacturer of construction machinery and listed on the Bursa Malaysia. DD & Co is responsible for the audit of XYZ Berhad for the year ended 31 December 2018. The audit work has been completed and Nazim Ali the audit manager for the engagement is reviewing the working papers in order to draft a report to those charged with governance.

From the review, Nazim found that during the audit of property, plant and equipment (PPE), the audit team found no material misstatement. However, a few issues have come to his attention. The issues are:

1. During the year, XYZ Berhad had purchased office equipment with a cost of RM 300,000. However, the audit team discovered that no authorization had been gained for this purchase. XYZ's officer who was in charge of the purchase claimed that the management has conveyed their agreement with the purchase in the management team monthly meeting. Nevertheless, the audit team has not been furnished with the relevant minutes of meeting even after numerous requests.

2. XYZ Berhad developed their own PPE system known as PPEMedi. This internally developed system maintains the XYZ's PPE records. The audit team discovered inaccuracy in the application of some PPE costs at acquisition and depreciation charged. This is due to programming problem in the PPEMedi. Despite the amount involved is immaterial, this has resulted in the audit team having difficulty in verifying the PPE ending balance feared that the system glitch could have affected the whole PPE portfolio.

Required:

a. For each of the issue found above, explain the possible impact towards the company and suggest one (1) recommendation for each issue that can improve the management of PPE in XYZ Berhad.

Present your answers in the following format:

Impact of issues towards the company	Recommendation to improve management of PPE
1.	

(8 marks)

Continued...

b. Describe three substantive audit procedures that should have been performed to obtain evidences relevant to PPE during the year ended 31 December 2018.

(6 marks)

c. In view of the issues raised during the audit of PPE for XYZ Berhad, how would these issues have affected your audit work?

(2 marks)

ii- ISA 320: *Audit Materiality* defines "Materiality" as "Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful." The standard requires auditor to make a preliminary judgment of materiality during the planning stage of the audit.

Required:

a. Explain why it is necessary to allocate the preliminary judgment about materiality to individual accounts (segments) in the financial statements.

(2 marks)

b. Explain why allocating to balance sheet accounts is more common than allocating to income statement accounts.

(2 marks)

(Total: 20 marks)

QUESTION 5

i- Embezzlers occasionally cover a theft of cash by a practice known as kiting.

Required:

a. Explain kiting, and discuss how it is performed.

(5 marks)

b. Discuss how an auditor can test for kiting.

(5 marks)

Continued...

ii- You are responsible for the audit of inventory for MBJ Grocery Bhd, a grocery wholesaler that sells to independent grocery stores. Inventory is by far the largest account on MBJ's statement of financial position. MBJ relies on the inventory counts at the year end to value the inventory in the financial statements.

Required:

Describe the audit procedures to be performed to verify the accuracy of the inventory count:

a. before the inventory count

(5 marks)

b. at the inventory count.

(5 marks)

(Total: 20 marks)

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